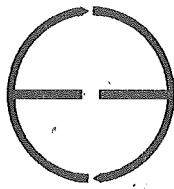


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June 7, 2010

Kevin Kennedy, Assistant Executive Officer
California Air Resources Board
1001 I Street, 6th Floor
Sacramento, CA 95814

Via <http://www.arb.ca.gov/cc/capandtrade/comments.htm>

RE: CCEEB Comment Letter in Response to the May 17, 2010 Workshop on Cap-and-Trade Allowances Allocation Issues

Dear Mr. Kennedy:

The California Council for Environmental and Economic Balance (CCEEB) is a coalition of business, labor and public leaders that advances strategies for a strong economy and a healthy environment. On behalf, of CCEEB, we want to thank the California Air Resources Board (ARB) for this opportunity to comment on May 17, 2010 workshop (workshop) regarding allocation of allowances. Additionally, CCEEB appreciates and supports the overall direction that has taken place since the initial release of the Preliminary Draft Regulation (PDR) for a Cap-and-Trade Program.

Transition Period

A phased and gradual approach to a low carbon economy as presented at the workshop and in the Governor's March 24, 2010 letter to Chairwoman Nichols reflects the approach favored by CCEEB. Additionally, in CCEEB's January 11, 2010 letter regarding the PDR we recommended phasing into an auction with initial allocations being freely allocated to further the purposes of AB32. We support the Governor's statement that, "a free allocation system, on the other hand, should reward companies that have already made significant investments in energy efficiency and carbon reduction, and should not penalize those that produce goods in California." To this extent, ARB and the Governor have recognized our concerns and CCEEB fully supports a transition assistance period. Through a measured transition period, ARB can mitigate some of the initial issues of a new marketplace and limit leakage.

Community Contingency Fund

CCEEB recommends a Community Contingency Fund rather than a Community Benefit Fund. Initial data presented from the recent Health Impact Assessment (HIA) analysis

conducted by ARB, demonstrate that communities and public health will greatly benefit from criteria pollutant reductions and improved air quality resulting from implementation of the State Implementation Plan and the ARB diesel rules. Considering the benefits from these existing programs, any potential co-pollutant co-benefits resulting from GHG reduction projects located in impacted communities will result in little, if any, added public health benefit. That is to say, saddling a cap-and-trade program with unnecessary restrictions will not result in significant improvements to local air quality, but would greatly increase both compliance and administrative costs. Moreover, we expect that achieving 100% GHG reductions within impacted communities is not technologically feasible, and as a result, would require mandatory cut-backs in throughput at capped facilities.

With this ARB analysis in mind, a Community Contingency Fund that is limited to mitigating any adverse impacts that occur from a Cap-and-Trade program is a more prudent use of funds than a larger Community Benefit Fund, which would operate like a tax program. It is CCEEB's belief that a Community Contingency Fund will protect communities without interfering with offset development and emission mitigation options that should be encouraged through this regulation.

Ideas on Cost Containment and Leakage Prevention

CCEEB supports the idea of unlimited, high-quality offsets to constrain costs. Essentially all of the studies on the economics of implementing a Cap-and-Trade Program show that offsets are critical to minimize costs. Limiting offsets increases costs to CA businesses and leads to leakage of both jobs and emissions out of the state. If concerns are that low cost offsets outside of CA will be used instead of businesses making low cost reductions in CA, then a tiered system could be put into place so that as costs rise offset limits would also increase.

In addition to the primary cost containment mechanism of using offsets, a strategic allowance reserve is recommended as an insurance policy against events such as unexpected market dynamics or difficulties obtaining ARB approved offsets. The Strategic Reserve would initially be comprised of allowances from future compliance years and replenished with offsets purchased using revenues from the sale of allowances from the Strategic Reserve. Allowances from the reserve should always be available to market participants at a predetermined ceiling price. A Strategic Reserve provides market certainty that is necessary to contain costs. The ability to bank and borrow are important to a functioning marketplace.

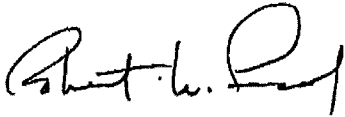
Benchmarking

We recommend against the use of an industry average input/output benchmarking method because it will penalize efficient complex facilities. It is critical that ARB work with the industries directly to develop these benchmarks in an open transparent process. It is more important that ARB get benchmarking right, than it is for all of the details of the benchmarks to be completed before November 2010.

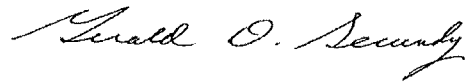
Conclusion

CCEEB would like to thank ARB for this opportunity to comment on the May 17, 2010 workshop and we hope our input is helpful. CCEEB is a unique organization that represents a broad cross-section of the covered entities in California. As such, CCEEB is in a unique position to represent diverse industry sectors and would like to assist ARB in developing these ideas further. CCEEB looks forward to playing an integral role in the development of California's Cap-and-Trade Program. If there are any questions please call Robert Lucas at (916) 444-7337.

Sincerely,



Robert W. Lucas
Climate Change Project Manager



Gerald D. Secundy
President

cc: Scott Reid, Cabinet Secretary & Deputy Chief of Staff, Office of the Governor
John Moffatt, Chief Deputy, Legislative Secretary, Office of the Governor
Dan Pellissier, Deputy Cabinet Secretary, Office of the Governor
Linda Adams, Secretary, CA Environmental Protection Agency
Cindy Tuck, Undersecretary, CA Environmental Protection Agency
Mary Nichols, Chair and Members of California Air Resources Board
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